

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 1996  
Commission File No. 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California 94-2579843

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2500 Grant Avenue  
San Lorenzo, California 94580

(Address of principal executive offices)

Registrant's telephone number: (510) 276-2626

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes      X                      No  
\_\_\_\_\_                      \_\_\_\_\_

At May 1, 1996, 7,585,675 shares of Registrant's Common Stock were outstanding.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)

	Three months ended March 31,	
	1996	1995
	-----	-----
REVENUES:		
Rental operations-		
Rental	\$11,557,798	\$11,074,099
Rental related services	1,658,386	2,030,738
	13,216,184	13,104,837
Sales and related services	4,489,167	3,544,632
	17,705,351	16,649,469
	-----	-----
COSTS & EXPENSES:		
Direct costs of rental operations-		
Depreciation	3,005,653	2,754,380
Rental related services	1,026,590	1,175,651
Other	1,228,130	1,152,418
	5,260,373	5,082,449
Cost of sales and related services	3,100,825	2,328,899
	8,361,198	7,411,348
	-----	-----
Gross margin	9,344,153	9,238,121
Selling and administrative expenses	3,610,473	3,302,686
	5,733,680	5,935,435
Income from operations	5,733,680	5,935,435
Interest expense	635,274	675,454
	5,098,406	5,259,981
Income before provision for income taxes	5,098,406	5,259,981
Provision for income taxes	2,024,829	2,083,012
	\$ 3,073,577	\$ 3,176,969
Net income	=====	=====
Net income per share	\$ 0.39	\$ 0.38
	=====	=====

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	March 31, 1996	December 31, 1995
	-----	-----
<b>ASSETS</b>		
Cash	\$ 70,284	\$ 221,075
Accounts receivable, less allowance for doubtful accounts of \$605,000 in 1996 and in 1995	12,113,836	13,201,196
Rental equipment, at cost:		
Relocatable modular offices	146,444,288	146,867,850
Electronic test instruments	37,478,705	34,932,807
Accessory equipment	3,778,950	3,755,754
	-----	-----
	187,701,943	185,556,411
Less - Accumulated depreciation	(59,488,379)	(57,948,456)
	-----	-----
	128,213,564	127,607,955
Land, at cost	19,489,300	19,489,300
Land improvements, furniture and equipment, at cost, less accumulation of \$2,824,369 in 1996 and \$2,708,404 in 1995	13,914,579	12,713,095
Prepaid expenses and other assets	1,755,564	1,897,700
	-----	-----
	\$175,557,127	\$175,130,321
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Notes payable	\$ 35,855,000	\$ 37,080,000
Accounts payable and accrued liabilities	12,710,970	11,701,417
Deferred income	4,754,285	5,967,063
Deferred income taxes	36,302,720	34,488,695
	-----	-----
Total liabilities	89,622,975	89,237,175
	-----	-----
<b>Shareholders' equity:</b>		
Common stock, no par value -		
Authorized - 20,000,000 shares		
Outstanding - 7,693,315 shares in 1996 and 7,769,813 in 1995	6,950,308	8,913,311
Retained earnings	78,983,844	76,979,835
	-----	-----
Total shareholders' equity	85,934,152	85,893,146
	-----	-----
	\$175,557,127	\$175,130,321
	=====	=====

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Increase (decrease) in cash  
 (Unaudited)

	Three months ended March 31,	
	----- 1996	1995 -----
Cash flows from operating activities:		
Net income	\$ 3,073,577	\$ 3,176,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,178,949	3,208,414
Gain on sale of rental equipment	(1,115,396)	(906,519)
Change in:		
Accounts receivable	1,087,360	1,039,808
Prepays and other assets	142,136	(291,993)
Accounts payable and accrued liabilities	875,338	405,812
Deferred income	(1,212,778)	(1,091,226)
Deferred income taxes	1,814,025	1,583,171
Net cash provided by operating activities	----- 7,843,211	----- 7,124,436
Cash flows from investing activities:		
Purchase of rental equipment	(5,501,792)	(3,691,143)
Purchase of land improvements, furniture and equipment	(1,374,781)	(2,841,304)
Proceeds from sale of rental equipment	3,005,926	2,326,353
Net cash used in investing activities	----- (3,870,647)	----- (4,206,094)
Cash flows from financing activities:		
Net borrowings (payments) under line of credit	(1,225,000)	(1,900,000)
Proceeds from the exercise of stock options	252,125	26,865
Repurchase of common stock	(2,215,127)	(714,037)
Payment of dividends	(935,353)	(900,344)
Net cash used in financing activities	----- (4,123,355)	----- (3,487,516)
Net increase (decrease) in cash	(150,791)	(569,174)
Cash balance, beginning of period	221,075	1,151,648
Cash balance, end of period	----- \$ 70,284	----- \$ 582,474
Interest paid during period	----- \$ 641,163	----- \$ 700,880
Income taxes paid during period	----- \$ 210,804	----- \$ ---
Dividends declared but not yet paid	----- \$ 1,069,567	----- \$ 977,940

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 1996  
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1. The consolidated financial information for the three months ended March 31, 1996 has not been audited, but in the opinion of management, all adjustments (consisting of only normal recurring accruals, consolidation and eliminating entries) necessary for the fair presentation of the consolidated results of operations, financial position, and cash flows of McGrath RentCorp (the "Company") have been made. The consolidated results of the three months ended March 31, 1996 should not be considered as necessarily indicative of the consolidated results for the entire year. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest Form 10-K.

2. The number of outstanding shares and equivalent shares used in the earnings per common share calculations were as follows:

Quarter ended March 31, -----	Primary -----	Fully Diluted -----
1996	7,878,185	7,881,295
1995	8,262,300	8,262,300

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Three Months Ended March 31, 1996 and 1995

Rental revenues for the first quarter of 1996 increased by \$483,699, a 4% increase over the same period in 1995. The rental revenue increase from electronics of \$819,584 was offset by a \$335,885 decline in rental revenues from relocatable modular offices. Average utilization during the first quarter declined for electronic equipment from 56.7% to 54.7% and modular equipment from 75.5% to 70.0% compared to the same period in 1995.

Rental related services for the three months ended March 31, 1996 decreased \$372,352, an 18% decrease from the same period in 1995. The decrease was due primarily to fewer site work requirements experienced in 1996 and less incentive fees earned during the quarter for equipment management.

Sales and related services for the three months ended March 31, 1996 increased \$944,535, a 27% increase, compared to the same period in 1995. Sales and related services from quarter to quarter have fluctuated depending on customer requirements. Gross margins on sales and related services declined from 34% in 1995 to 31% in 1996.

Selling and administrative expenses increased \$307,787 (9%) for the three months ended March 31, 1996 compared to the same period in 1995 primarily due to increased staffing levels and personnel costs.

Income before provision for taxes decreased \$161,575 (3%) for the three months ended March 31, 1996 from the same period in 1995 with after tax income decreasing \$103,392 (3%). Earnings per share for the quarter increased from \$0.38 per share to \$0.39 per share as a result of fewer outstanding shares.

Liquidity and Capital Resources.

The debt (notes payable) to equity ratio was 0.42 to 1 at March 31, 1996 compared to 0.43 to 1 at December 31, 1995. The debt (total liabilities) to equity ratio at the end of the current period and as of December 31, 1995 was 1.04 to 1.

The Company continues to make purchases of shares of its common stock from time to time in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions under an authorization of the Board of Directors. The Board of Directors believes the Company's shares are currently undervalued by the market and that the repurchase of its shares is a good investment for the Company at this time. Shares repurchased by the Company will be cancelled and returned to the status of authorized but unissued stock. From January 1, 1996 thru May 1, 1996, the Company has repurchased a total of 225,700 shares of common stock with an aggregate cost of \$4,377,324 or an average price of \$19.39 per share. As of May 1, 1996, 269,300 shares remain authorized for repurchase.

The Company's primary use of funds is to purchase rental equipment, and funds will continue to be used for this purpose in the future. Additionally, the Company plans to make further improvements to the land at their inventory facility located Northern California. The Company also pays quarterly dividends, which will constitute an additional use of cash in 1996.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On March 29, 1996 the Company declared a quarterly dividend on its Common Stock; the dividend was \$0.14 per share. Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends. The Company's loan agreement with its banks prohibits payment of dividends in excess of 50% of net income in any one year without the banks' consent.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS. No exhibits included.

(b) REPORTS ON FORM 8-K. No reports on form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 1, 1996

McGRATH RENTCORP

By: /s/ Delight Saxton

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Delight Saxton  
Vice-President of Administration,  
Chief Financial Officer and  
Secretary



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MCGRATH RENTCORP'S QUARTERLY REPORT (10Q) FOR THE QUARTER ENDING MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS	
DEC-31-1996	
JAN-01-1996	
MAR-31-1996	
	70
	0
12,718	
(605)	
	0
0	223,930
(62,313)	
175,557	
0	0
0	
	0
	6,950
	78,984
175,557	
	17,705
17,705	
	8,361
	9,344
3,610	
	0
635	
5,098	
	2,025
3,074	
	0
	0
	0
	3,074
	.39
	0

Includes Rental Equipment, Land, Land Improvements, Furniture and Equipment.  
Accumulated Depreciation related to footnote 16 above.